

AR13

Corp report

**Peterson, Howell & Heather
(Canada) Limited**

Annual Report

For the year ended
August 31, 1971





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Financial Highlights

For the year ended August 31, 1971

	1971	1970
Net investment in leased vehicles (year-end)	\$ 22,323,000	\$ 20,484,000
Vehicle rentals	9,889,000	8,666,000
Net income	305,000	271,000
Increase over previous year	12.5%	34.6%
Earnings per share	48.6¢	44.3¢
Cash dividends paid	108,000	83,000
Per share	18¢	16¢
Stock dividends	5%	12½%
Shares outstanding (year-end)	637,600	622,276
Average for the year (adjusted for stock dividends)	627,259	612,272

Directors

William J. Bennett
Montreal, Que.

John N. Cole
Montreal, Que.

*Frank B. Common, Jr., Q.C.
Montreal, Que.

F. Campbell Cope, Q.C.
Montreal, Que.

Jerome W. Geckle
Baltimore, Md.

George A. Goad
Montreal, Que.

*William H. Hill
Baltimore, Md.

*John S. Lalley
Baltimore, Md.

J. Angus Ogilvy, Q.C.
Montreal, Que.

Lloyd P. Rogers
Montreal, Que.

Richard R. Smith
Montreal, Que.

Lloyd B. Taft
New York, N.Y.

Officers

Frank B. Common, Jr., Q.C.
Chairman of the Board

John S. Lalley
President

Lloyd P. Rogers
Executive Vice-President

William H. Hill
Vice-President—Finance

R. Keith Price
Vice-President—Sales

Richard R. Smith
Vice-President—Administration
& Planning and Treasurer

Robert L. Arlein
Assistant Vice-President

Hudson P. Goodbody
Assistant Vice-President

James D. Smith
Assistant Vice-President

Paul St-Julien, C.A.
Comptroller

Robert L. Munro
Secretary

Miss Eileen M. Crosby
Assistant-Secretary

Miss G. Ruth Hanson
Assistant-Treasurer

Head Office
4999 St. Catherine Street West,
Montreal 215, Que.

Registrar, Transfer Agent and
Dividend Disbursing Agent
Montreal Trust Company,
Montreal, Que.

Auditors
Clarkson, Gordon & Co.

*Members of the Executive Committee

Directors' Report to Shareholders

The fiscal year ended August 31, 1971, was most satisfactory from a number of standpoints. Foremost among these was the fact that revenues and earnings overcame adverse economic conditions to climb to record heights.

The rate of growth in units and revenues was, of course, affected by the influence of the unfavourable business climate on the growth of our clients. The protracted strike of auto workers during the fiscal year also had an adverse effect.

It is therefore particularly gratifying to report that gross rentals plus other management fees exceeded the \$10 million mark for the first time in the Company's history. After deducting depreciation on leased vehicles, net rentals and management fees totalled \$3,026,000 — an increase of 14.5%.

Net profit for the fiscal year rose 12.5% to \$305,000. Earnings per share amounted to 48.6¢ compared with 44.3¢ last fiscal year.

This enabled the Company to increase the dividend rate on its common shares for the sixth year running. Regular quarterly dividends were paid at a rate of 4¢ a share. A year-end extra of 2¢ a share was declared for a total dividend of 18¢ a share compared with 16¢ a share the previous fiscal year.

The increased dividend, coupled with the larger number of shares outstanding, brought total dividend payments to \$108,000, an increase of 30% over the previous year. On August 30, 1971, a stock dividend amounting to \$91,000 was paid by issuing 30,345 Class A shares, representing one additional Class A share for each 20 Class A or Class B shares held.

Operations

By the end of the fiscal year, 9,657 vehicles were being operated under the Company's fleet management services program; of these, 8,966 were leased.

The slow growth in the overall economy generally accounted for a relatively slower than normal growth in the number of units. The increase in units in the fiscal year amounted to 642, somewhat less than in recent years.

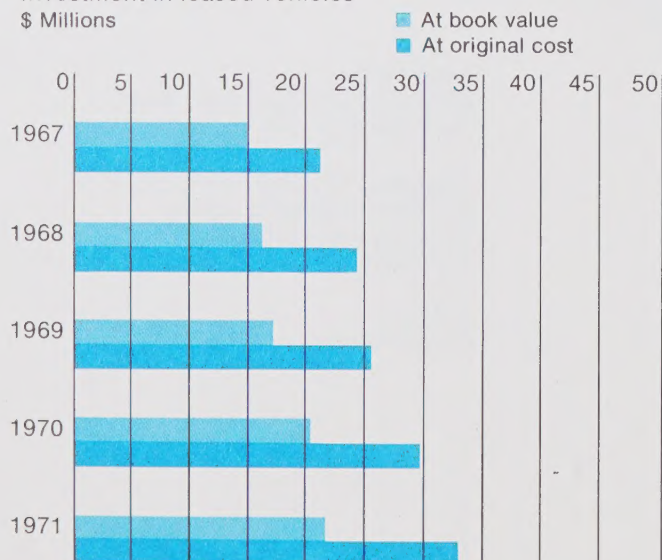
Total original cost of leased vehicles at year-end was \$33,806,000, up 13% from fiscal 1969-70. Current leasing rates include a higher depreciation factor than in earlier years. As a result, the increase in the book value of leased vehicles was limited to 9%. The net investment in leased vehicles at \$22,323,000 represented 66% of the original cost of the vehicles compared with 68.5% last fiscal year.

Outlook

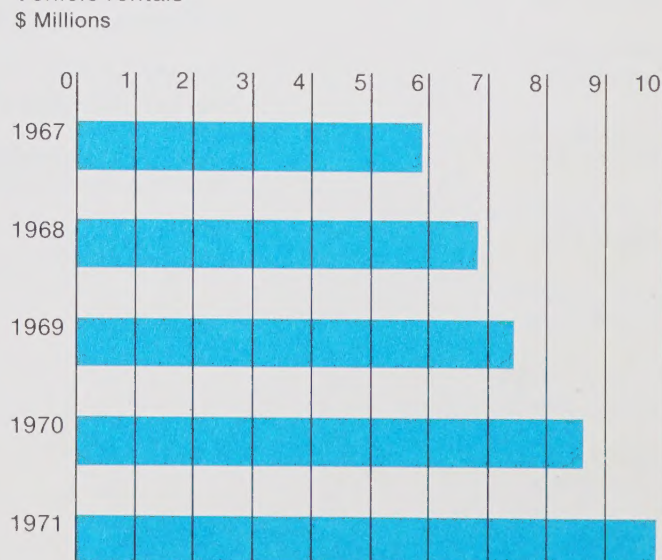
The general slow-down in business activity, which resulted in some reduction of clients' fleets, also led to a cut-back in replacement activity. It is expected that replacements will accelerate as the pace of business generally picks up in the year ahead.

The decision of the automobile manufacturers to make initial deliveries of 1972 models at 1971 prices should also stimulate new orders. The opening months of the buying season are likely to show a significant increase in ordering activities by our clients.

Investment in leased vehicles
\$ Millions



Vehicle rentals
\$ Millions



Financing

Our bank line of credit was substantially increased as a result of an amendment to the Debenture Trust Deed which enabled the Company to provide security for its bank borrowings.

During the year a subsidiary company negotiated loan agreements with two of the "Big Three" automobile manufacturers under which financing will be provided for vehicles to be acquired and leased by this subsidiary. It is anticipated that in the year ahead, financing arrangements for this subsidiary will be broadened. This will improve our ability to more effectively service our clients' fleet requirements.

At year-end, 88.6% of the net investment in leased vehicles was financed by borrowed funds. The ratio was 91% in fiscal 1969-1970.

Additional Services

In line with our continuing policy of enhancing and expanding our services, our clients were offered a completely revised Automobile Expense Control Program in January. The new system is designed to provide relevant data in a more usable form. It gives the client a flexible report package while introducing a variety of new concepts such as "control by exception" reporting.

The Company is collaborating with Imperial Oil Ltd. to make available to clients a new maintenance service program. This provides an alternate source for maintenance not covered by warranty and features controlled standards of workmanship coupled with a guarantee of the work performed.

Shareholders' Equity
\$ Millions



The initial response to this new program has been encouraging. It is expected that it will provide an increasingly beneficial aspect of our service for many of our clients.

U.S. Affiliate

In April Peterson, Howell & Heather, Inc., marked its 25th anniversary of service to some 750 of the largest U.S. corporations. The range of services provided to U.S. clients was broadened by the acquisition of Homequity, Inc. the nation's leading personnel relocation company. As an indication of the scope of the operations in the United States it should be noted that gross billings of PHH Inc. for fiscal 1971 totalled \$176 million compared with \$45 million ten years ago.

Directors

Since its incorporation your Company has had the benefit of the help and counsel as directors of two of the founders of PHH Inc. It is with regret that during the year your directors have accepted the resignations of Messrs. Harley W. Howell and Richard M. Heather. In both cases these resignations were part of individual plans to move towards retirement from day to day business activities. The continuing progress of PHH operations in both Canada and the U.S.A. is a living testimony to the foresight and ability of the founders of the business.

The Board also regretfully accepted the retirement as a director of Mr. Duncan Wallace. Mr. Wallace's connection with the Canadian operation pre-dates the incorporation of the Company, as he was an original partner in the firm of Peterson, Wallace & Co. which first offered the PHH Car Plan Management service in Canada in March 1952.

In January 1971 Mr. Lloyd P. Rogers, the Executive Vice-President of the Company, was elected a director to fill the vacancy resulting from Mr. Howell's resignation. In July 1971 Mr. Richard R. Smith, Vice-President Administration of PHH Canada, and Mr. Jerome W. Geckle, Senior Vice-President of PHH Inc., were elected to the Board of Directors.

F.B. Common, Jr., Q.C.
Chairman of the Board

J.S. Lalley, President

October 28, 1971

Report on Services

The Company's staff resources were further strengthened during the year by the addition of personnel in the buying and customer service departments. We are thus well-equipped to continue to provide a full range of management services to our growing number of clients.

The directors are gratified by the high degree of competence attained throughout the staff and are satisfied that this will be reflected in the professional advice and counsel and the operating services the Company offers. These services include:

- Advice on ownership versus leasing
- Recommending cars and equipment
- Purchase and sale of cars
- Care and maintenance
- Replacement scheduling
- Specifications and purchasing of trucks
- Expense control
- Administration

Ownership versus leasing advice

PHH management services are available whether clients wish to own or lease cars. The choice between owned or leased vehicles often depends on a company's operating needs and financial structure. PHH advisers are capable of assessing both these conditions of operation to help the client make the most efficient choice.

Recommending cars and equipment

The type of car supplied to a client has a critical effect on the ultimate cost of a corporate car plan. PHH experts provide timely recommendations on what type of car to use. These are designed to ensure maximum resale value and result in optimum costs and actual depreciation. At the same time, our recommendations pay close attention to the need to ensure a high level of efficiency and morale among the client's travelling personnel.

Purchasing and selling of cars

PHH purchases its clients' requirements at predetermined prices through a national network of carefully selected auto dealers. This system also provides for the disposal of used cars at predetermined prices subject to adjustment according to the condition of the cars. This convenient buying and selling system avoids the need to involve the client's own personnel in spending time on obtaining quotations for replacement cars.

Care and maintenance

PHH offers a complete maintenance plan designed to meet routine maintenance requirements. This service recognizes the fact that companies provide their personnel with cars mainly to improve efficiency in covering a sales territory, and that efficiency can be substantially reduced if mechanical breakdowns take members of the sales force "off the road".

Replacement scheduling

An important part of our service deals with the correct timing for vehicle replacement. Although the original selection of the most suitable car and equipment for the job remains the major determinant of the final depreciation expense, skilful replacement scheduling which takes into account model age, mileage, repair cost and the trading season also has a material effect on the overall cost to the client.



Specifications and purchasing of trucks

PHH is able to provide expert assistance in determining truck specifications. It will negotiate acquisitions of any type of truck or mobile equipment.

Expense control

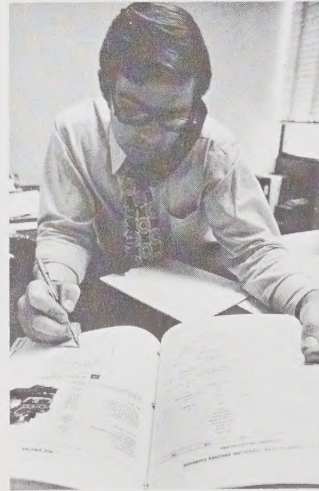
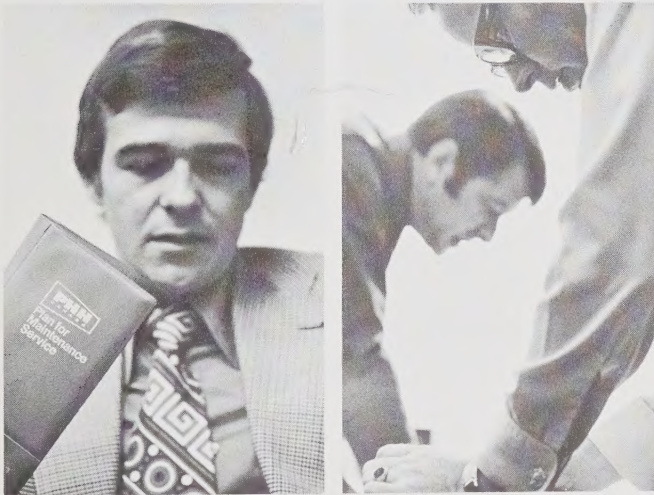
PHH offers an efficient expense control system which makes sense to every level of management. The system can also provide the basis for research and trend studies on all items of expense.

Administration

A team of PHH specialists concentrates on total transportation management, relieving clients of this complicated function. The duties of the sales, finance, purchasing, accounting, personnel, legal, insurance and traffic departments of a company regarding

transportation are integrated into a single operation run by experts in the field.

With these services at hand, PHH is dedicated to the proposition of continuing to offer the most complete range of professional fleet management services available in Canada. This dedication would not be possible without the skills, knowledge and efforts of our entire staff.



August 31, 1971

See accompanying notes

6

Liabilities and Shareholders' Equity	1971		1970	
Borrowed Funds				
<i>Payable on demand or within one year</i>				
Bank demand loan (note 2)	\$1,000,000		\$500,000	
Debentures payable within one year	<u>655,000</u>		<u>495,000</u>	
	1,655,000		995,000	
<i>Long-term</i>				
Debentures less amount payable within one year (note 2)	14,204,000		14,364,000	
Loans of subsidiaries (note 3)	<u>3,917,000</u>	19,776,000	<u>3,273,000</u>	18,632,000
Accounts Payable and Accrued Charges		415,000		249,000
Deferred Income Taxes (note 6)		1,398,000		1,063,000
Shareholders' Equity				
Capital stock (note 4)	823,000		686,000	
Retained earnings	<u>509,000</u>	1,332,000	<u>403,000</u>	1,089,000
		\$22,921,000		\$21,033,000

Auditors' Report

To the Shareholders of
Peterson, Howell & Heather
(Canada) Limited:

We have examined the consolidated balance sheet of Peterson, Howell & Heather (Canada) Limited and its subsidiaries as at August 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Montreal, Canada,
October 19, 1971

Consolidated Statement of Income

For the year ended August 31, 1971

	1971	1970
Income from vehicle rentals	\$9,889,000	\$8,666,000
Less depreciation on leased vehicles	7,002,000	6,141,000
Net rental income	2,887,000	2,525,000
Fees from management services	139,000	117,000
	<u>3,026,000</u>	<u>2,642,000</u>
Interest on debentures	1,072,000	1,021,000
Interest on loans of subsidiaries	333,000	166,000
Net short-term interest	(5,000)	(23,000)
Operating expenses	969,000	887,000
Depreciation on miscellaneous fixed assets	17,000	18,000
	<u>2,386,000</u>	<u>2,069,000</u>
Income before income taxes	640,000	573,000
Income taxes (note 6)	335,000	302,000
Net income for the year	\$ 305,000	\$ 271,000
Earnings per share	48.6¢	44.3¢

Consolidated Statement of Retained Earnings

For the year ended August 31, 1971

Balance—beginning of year	\$ 403,000	\$ 347,000
Add net income for the year	305,000	271,000
	<u>708,000</u>	<u>618,000</u>
Less dividends paid:		
Stock dividends (note 4)	91,000	132,000
Cash dividends — Class A shares	90,000	67,000
Class B shares	18,000	16,000
	<u>199,000</u>	<u>215,000</u>
Balance—end of year	\$509,000	\$403,000

See accompanying notes

Consolidated Statement of Source and Application of Funds

For the year ended August 31, 1971

	1971	1970
Funds Provided		
<i>Operations</i>		
Net income for the year	\$ 305,000 ✓	\$ 271,000
Deferred income taxes (note 6)	335,000	302,000
Depreciation on miscellaneous fixed assets	17,000	18,000
Depreciation on leased vehicles	7,002,000	6,141,000
Sale proceeds on leased vehicles	4,684,000	5,041,000
	12,343,000	11,773,000
<i>Borrowed funds</i>		
Net increase in loans of subsidiaries	644,000	2,851,000
Increase in bank demand loan	500,000	400,000
Repayment of 7½% demand loan	—	(100,000)
Repayment of debentures	—	(195,000)
	1,144,000	2,956,000
<i>Share capital</i>		
Sale of Class A shares (note 4)	46,000	50,000
	\$ 13,533,000	\$14,779,000
Funds Applied		
Purchase of leased vehicles	\$ 13,525,000	\$14,513,000
Net additions to miscellaneous assets	15,000	30,000
Net change in receivables less payables	(248,000)	124,000
Cash dividends	108,000	83,000
	13,400,000	14,750,000
Increase in cash	133,000	29,000
	\$ 13,533,000	\$14,779,000

See accompanying notes

Notes

To Consolidated Financial Statements
August 31, 1971

1 Valuation of leased vehicles

Straight line depreciation rates on leased vehicles are related to the terms of the leases. All vehicles placed in service since September 1970 are being depreciated over their estimated service lives which in the case of passenger cars is from 40 to 50 months, and in the case

of trucks, tractors and trailers 40 to 80 months. Each lease provides that any profit or loss on disposal of leased vehicles shall be refunded to or paid by the lessee as a rental adjustment.

2 Debentures outstanding

	1971	1970
7.06% Series A	\$ —	\$ 2,225,000
6.00% Series B	—	1,775,000
6.50% Series C	—	500,000
7.36% Series D	—	2,500,000
6.00% Series E	—	1,000,000
6.70% Series G	—	1,250,000
6.00% Series H	—	500,000
6.25% Series I	1,555,000	1,555,000
7.50% Series J	2,800,000	2,800,000
8.00% Series K (\$700,000 U.S.)	754,000	754,000
7.53% Series L	9,750,000	—
	14,859,000	14,859,000
Amount payable within one year	655,000	495,000
	\$14,204,000	\$14,364,000

In addition to the debentures outstanding as above, the Company has issued \$3,000,000 of 8.00% Series RBC debentures which are payable on demand and are held under a pledge agreement by The Royal Bank of Canada. Under the provisions of the Trust Deed the Series RBC debentures are considered outstanding only to the amount required to be paid to release them from pledge, which at August 31, 1971 was \$1,000,000, being the amount of the outstanding demand loan from the Company's bankers.

The debentureholder waived the sinking fund payments due July 1971 on the Series I and Series J debentures and the future sinking fund payments on these Series were adjusted to reflect this deferral.

Under the terms of a Supplemental Trust Deed dated January 1, 1971, the Series A, B, C, D, E, G and H debentures were surrendered and cancelled in exchange for \$9,750,000 of 7.53% Series L debentures.

The debentures are secured by an assignment of the rentals on leased vehicles. As rentals are received they are deposited with the Trustee for the debentureholders and are withdrawn in accordance with the terms of the Trust Deed.

Debentures of Series L mature three years after the date on which a demand is made by either
(a) the debentureholders by written notice to the Company, or
(b) the Company by written notice to the Trustee for the debentureholders. As at August 31, 1971 no such demand had been made.

Debentures of Series I to K mature as follows:

	Annual Principal Payment	Period	Residual Principal Maturity
Series I	\$222,000	1972 to 1977 inclusive	July 31, 1978
Series J	\$350,000	1972 to 1978 inclusive	July 31, 1979
Series K	\$ 77,000 U.S.	1972 to 1979 inclusive	May 31, 1980

The principal payments required in each of the next five years are \$572,000 and \$77,000 U.S.

3 Loans of subsidiary companies

Two wholly-owned leasing subsidiaries finance their purchases of leased vehicles by borrowings under three separate loan agreements. The borrowings are secured by assignments of the rentals payable on the leased vehicles and liens on the vehicles themselves. The loan agreements contemplate that additional advances will be made from time to time as additional leased vehicles are purchased or existing vehicles are replaced. The funds have been advanced at various rates of interest from 7.75% to 10.50%.

Because the repayments required on these loans are related to amounts to be received in respect of the leased vehicles financed by these loans, no portion of the loans is shown as due within one year on the accompanying consolidated balance sheet. Since the length of time individual leased vehicles will be in service is not known, an accurate calculation of the principal repayments which will be made in each of the next five years is not feasible.

4 Capital stock

The authorized capital of the Company consists of: 1,000,000 Class A shares without par value and 100,000 Class B shares without par value.

The Class B shares are convertible into Class A shares on a share for share basis. Conversion may take place at any time up to and including June 30, 1980 and under certain circumstances conversion must take place earlier, but in any event all Class B shares will be converted by June 30, 1980. Class A shares are entitled to one vote per share and Class B shares are entitled to 100 votes per share.

The following shares were issued during the year:

For cash	15,324 Class A shares	\$ 46,000
As stock dividends	30,345 Class A shares	91,000
Total	45,669 Class A shares	\$137,000

The issued and fully paid capital as at August 31 was:	1971	1970
537,600 Class A shares (491,931 in 1970)	\$723,000	\$586,000
100,000 Class B shares	100,000	100,000
	\$823,000	\$686,000

5 Remuneration of directors and officers

The total remuneration paid to the directors as a group (a total of fifteen persons of whom twelve held office at any one time) for their services as directors during the year was \$37,000. The total remuneration paid to the

officers as a group (eight persons of whom five were directors for all or part of the year) for their services as officers during the year was \$122,000.

6 Deferred income taxes

The Company has made full provision for income taxes. By claiming for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, no income taxes are currently payable.

5 Year Review

Years ending August 31

	1971	1970	1969	1968	1967
Investment in Leased Vehicles					
Original cost	\$ 33,806,000	\$ 29,913,000	\$ 25,590,000	\$ 24,219,000	\$ 21,422,000
Book value	22,323,000	20,484,000	17,153,000	16,627,000	15,042,000
Book value as a percentage of original cost	66.0%	68.5%	67.0%	68.7%	70.2%
Borrowed Funds					
Secured	19,776,000	18,132,000	15,476,000	15,054,000	13,300,000
Unsecured	—	500,000	200,000	600,000	900,000
Total	19,776,000	18,632,000	15,676,000	15,654,000	14,200,000
Borrowed funds as a percentage of book value of leased vehicles	88.6%	91.0%	91.4%	94.1%	94.4%
Shareholders' Equity	1,332,000	1,089,000	852,000	699,000	602,000
Equity per share (adjusted for stock dividends)	2.09	1.75	1.43	1.20	1.03
Operating Results					
Income from vehicle rentals	9,889,000	8,666,000	7,462,000	6,789,000	5,913,000
Depreciation on leased vehicles	7,002,000	6,141,000	5,397,000	4,979,000	4,377,000
Net rental income	2,887,000	2,525,000	2,065,000	1,810,000	1,535,000
Fees from management services	139,000	117,000	102,000	39,000	8,000
Interest expense	1,400,000	1,164,000	1,013,000	963,000	820,000
All other expenses	986,000	905,000	737,000	600,000	495,000
Net income	305,000	271,000	201,000	141,000	114,000
Earnings per share	48.6¢	44.3¢	34.2¢	24.1¢	19.6¢
Cash dividends per share	18¢	16¢	14¢	11¢	10¢

Peterson, Howell & Heather
(Canada) Limited
*4999 St. Catherine Street West,
Montreal 215, Que.*

Affiliated Company in USA:

Peterson, Howell & Heather,
Inc.
*2701 North Charles Street,
Baltimore, Maryland 21218*

Consolidated Statement of Source and Application of Funds

for the Six Months Ended
February 29, 1972

	1972	1971
Funds Provided		
<i>Operations</i>		
Net Income for the Period	\$ 181,000	\$ 147,000
Deferred Income Taxes	200,000	167,000
Depreciation on Miscellaneous Fixed Assets	9,000	7,000
Depreciation on Leased Vehicles	3,899,000	3,335,000
Sale Proceeds on Leased Vehicles	2,518,000	1,654,000
	<u>6,807,000</u>	<u>5,310,000</u>
<i>Share Capital</i>		
Sale of Class A Shares	75,000	—
	<u>\$6,882,000</u>	<u>\$5,310,000</u>
Funds Applied		
Purchase of Leased Vehicles	\$6,637,000	\$3,625,000
Net Increase (Decrease) in Miscellaneous Assets	(19,000)	11,000
Net Change in Receivables less Payables	377,000	(64,000)
Net Reduction in Loans of Subsidiaries	23,000	109,000
Decrease in Bank Demand Loan	100,000	500,000
Cash Dividends	60,000	47,000
	<u>7,178,000</u>	<u>4,228,000</u>
Increase (Decrease) in Cash	(296,000)	1,082,000
	<u>\$6,882,000</u>	<u>\$5,310,000</u>

Corp repaid

AR13

Peterson, Howell & Heather (Canada) Limited

Interim Report to Shareholders for the Six Months to February 29, 1972



Consolidated Statement of Income

for the Six Months Ended
February 29, 1972

TO OUR SHAREHOLDERS

During the first six months, replacement activity was substantially ahead of the same period last year. In part, this increase in activity is accounted for by previous deferments of replacements and, in part, by the fact that prices for early 1972 models were "rolled back" to 1971 levels. Purchases of leased vehicles totalled \$6,637,000 during the period as against \$3,625,000 in the first half of the previous year.

Rental income in the current year reflects the reduction in rental rates that was introduced in April, 1971—despite the reduced rates, net rental income increased by \$140,000 or 10% over the previous year. Fees from management services were 80% ahead of the prior year, reflecting the transfer to Canada of the Goodyear Tire Program and the further progress of the Maintenance Plan. Total net revenue at \$1,648,000 showed an increase of 12.9%.

Interest expense increased by \$87,000 and other operating expenses were higher by \$34,000 or 7.0%. Income before income taxes at \$381,000 set a new record and was \$67,000 ahead of the year ago figure. After full provision for income taxes, net income for the period increased from \$147,000 last year to \$181,000 for a gain of 23.1%. Earnings per share were 27.8 cents in the current period compared to 22.8 cents a year ago.

Two quarterly dividends of 4.5 cents per share were declared and paid on November 26, 1971 and February 25, 1972. In the previous year the quarterly dividends were at the rate of 4 cents per share.

	1972	1971
Income from Vehicle Rentals	\$5,439,000	\$4,735,000
Less Depreciation on Leased Vehicles	3,899,000	3,335,000
Net Rental Income	1,540,000	1,400,000
Fees from Management Services	108,000	60,000
	1,648,000	1,460,000
Interest Expense	749,000	662,000
Operating Expenses	518,000	484,000
	1,267,000	1,146,000
Income Before Income Taxes	381,000	314,000
Provision for Income Taxes	200,000	167,000
Net Income for the Period	\$ 181,000	\$ 147,000
Earnings per Share	27.8¢	22.8¢

F. B. Common, Jr., Q.C.
Chairman of the Board

J. S. Lalley, President

April 27, 1972

The Directors of the Company today declared a quarterly dividend of 4½¢ on each of the outstanding Class A and Class B shares of the Company, payable on May 25, 1972, to shareholders of record at the close of business on May 15, 1972.